Protecting Low Income People from Higher Electricity Prices

A submission by the Community Social Planning Council of Toronto to the Hon. Dwight Duncan, Minister of Energy

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Introduction

We are writing in response to the Premier's October 30 announcement that he has asked you to come up with recommendations on replacing the previous government's electricity rate cap with a regulated price that "better reflects the true costs of electricity."

While the short time frame did not allow us to develop proposals and analysis as comprehensively as we would have liked, we felt that the importance of the issues made it essential that we offer some comments.

The Community Social Planning Council of Toronto appreciates the fact that the new Government is under serious financial constraints that are not of its making. We also appreciate that never before in Ontario's history has the consolidated revenue fund subsidized the price of electricity as it is now doing.

Our main concern is for Ontario's, and specifically Toronto's, low income population. High rent increases, a frozen minimum wage and the dramatic 1995 reduction in social assistance rates have left this group struggling. We know that with your promise of a housing allowance for 35,000 low income families, a cost-of-living increase for Ontario Disability Support Plan recipients, and other initiatives, that your Government shares this concern. Higher electricity rates, however, could leave low income people facing an increased cost they can ill afford, with many households in danger of losing their electricity service and consequently their heat. For others who have the cost of heat and hydro included in their rent, it could be the tipping point that causes them to fall into arrears and face eviction.

A staggering 552,300 people, or 22.6% of all Toronto residents, have income below the Statistics Canada Low Income Cut-off (LICO). Forty two percent of Toronto tenants presently pay over 30% of their gross income in rent and 20% pay over half their income. The average Toronto rent for a two bedroom apartment is now $1,047 per month while social assistance pays just $602 per month in shelter allowance for a family of two parents and two children.[1] Clearly, for a great many people, there is no room in the budget for higher hydro rates.

The cost of an electricity rate increase

We will not in this paper comment at length on the best way of producing Ontario's electricity. We are glad that the Government is committed to a regulated rate rather than directly subjecting consumers to the spot market's volatility.

We also ask, however, that the Government have regard for the arguments made by the Ontario Electricity Coalition and others; namely that it may be possible to avoid a significant rate increase by closing the spot market. The Coalition points out that the spot market price is not based on the cost of producing power but represents the price at which profit-seeking corporations will sell. A return to power-at-cost may yield a price that is

less than the 5.8 cents per kilowatt hour that the spot market has averaged since market opening.

While it is impossible to figure out the precise impact of higher hydro rates until your government states its new policy, a few statistics are in order. As we understand it, your ministry is reviewing not only the 4.3 cents per kilowatt/hour price of the electricity commodity but the cost of distribution and possibly other parts of the bill as well. The average Toronto household pays a total cost of about 9.4 cents per kw/hr. and has a bill of about $1,100 per year.[2] If the price of the commodity rose to 6.3 cents in order to both pay the cost of power now consumed and attract new supply, that would add about $230 per year to the average bill. For those with electric heat, the costs are considerably higher.

The Electricity Distributors Association says its members need at least another $100 million per year plus a one time payment of $650 million to cover one time deregulation transition costs that have already been incurred.[3] This could add about another $32 per year if the one time payment were spread over three years and all customers paid the costs. Other factors could trigger an even higher increase: the need to renew the transmission system, the third year of the phased increase for local distribution companies that was stopped by the rate freeze, and a levy on all bills to pay for renewable power development and conservation. With these items added, the total increase would likely be over $300 per year. While many low income people live in apartments and houses that are smaller than average and therefore may experience lower increases, even an increase of $100 can have serious financial consequences.

The specific impact on low income people

Two thirds of low income people in Ontario are tenants.[4] In Toronto, the percentage is much higher. Under the Tenant Protection Act, landlords must apply to the Ontario Rental Housing Tribunal to pass on utility cost increases in excess of the amount accounted for in the guideline (in 2004, that is any amount in excess of 1.45%). The application, however, is something of a formality as the full increase, net of the amount accounted for in the guideline, can be passed on without a phase-in and without a cap.

There is a delay between when the electricity rate increase is first passed on to the landlord and when tenants must pay. While delay is sometimes beneficial to the tenant, the shock of owing retroactive amounts can easily cancel out any such advantage.

While the Government, to its credit, has made campaign promises to lower rents when utility costs decrease, decreases are unlikely to be at issue when it comes to electricity.

The above applies to tenants who do not pay hydro directly. While statistics are notoriously hard to come by, it has been estimated that 20-25% of tenants are directly responsible for their hydro bills.

Social housing tenants and providers will be impacted too. Where providers have little ability to pass costs on to tenants, there could be a significant impact on already tight budgets.

The City of Toronto has a shelter fund to help families with children who are on Ontario Works. This Fund can pay rent or utility arrears of up to $1,500.[5] As the CSPC report "Discouraged, Diverted and Disentitled" by Dean Herd and Andrew Mitchell documents, however, there is reason to believe that a significant number of people who should be eligible for Ontario Works and related benefits are turned away by a system that seems designed to minimize the number of successful claimants.[6] The City also has a rent bank that will help families facing eviction but, as with the shelter fund, single people are ineligible.

Seniors on fixed government pensions may also have few options. This is also true of people working for low or minimum wages, though the government has promised to phase in an increase to the minimum of wage of $1.15 an hour over four years.

A charity called Share the Warmth also can assist by purchasing an emergency supply of energy on behalf of the client, but they do not have the resources to absorb a greatly increased caseload. They do, however, help seniors, the disabled and the terminally ill in addition to families, although again, like other programs they do not help non-senior single people.[7]

So what happens to low income tenants who don't pay and can't access emergency assistance? If the utility cost is included in the rent, non-payment leads the tenant on the road to eviction. If the electricity is billed separately, and the hydro can be cut off without cutting off the rest of the building, the tenant can lose their hydro and potentially their heat.

Another significant problem for those who pay hydro directly is that local utilities have become more aggressive in hitting customers with substantial re-connection charges if they are considered a poor risk.

Analysis of options to assist low income people

Charge a lower rate for basic consumption with higher amounts above that

The Government has suggested that it may move in this direction. While this could help some low income people, it will be difficult to make the model account for the variables in individual situations. Some people have electric heat, some don't. Some live in older buildings that have undergone little or no energy efficiency renovations, while others live in newer buildings that use energy more parsimoniously.

While overall, a progressive rate structure may help some low income people, it would be very hard to target by income. For some low income people, notably those with electric heat, the results could be decidedly negative.

Energy efficiency/conservation incentives

Energy efficiency can be an excellent substitute for new electricity supply. A recent study in California found that their energy efficiency programs cost only 3 cents/kw/hr.(U.S.), only 3.9 cents (Cdn) at today's exchange rates and much cheaper than building new power plants.[8] Of course, energy efficiency is also good for the environment and should form an important part of the Government's plan to close Ontario's coal-fired generating stations by 2007.

As a strategy to lower the hydro bills of low income people, however, energy conservation and efficiency should be considered a medium-to-long term solution. It cannot be implemented fast enough to to prevent most low income people from being hurt by a rate increase taking place in the near term.

Small consumers' ability to reduce their domestic electricity consumption significantly in the short run is quite limited. In the week following the August 14 blackout, large industrial customers greatly curbed their consumption under pressure from the Government by drastically cutting production.

Government itself shut down all but emergency functions for much of the week. Small domestic consumers, however, only achieved a more modest reduction. Despite all the rhetoric about cutting consumption, running the dishwasher in the middle of the night and using more efficient lightbulbs only gets you so far.

What is needed are home retrofits to address the building envelope as well as a switch to more efficient refigerators and other appliances. Home audits, followed by retrofits, can reduce consumption in an typical existing home by 30% according to GreenSaver, a company in the energy audit business.[9] It is clear, however, that these can't happen across the board over night. The Federal Government's Kyoto initiative is funding Greensaver and other organizations to do retrofits, but they do not have the capacity to meet potential demand. Auditors and retrofitters must be trained and certified in large numbers; then they must do the work. Realistically, this will take years to be fully implemented.

Another problem is that low income people are among the least likely to benefit from this sort of program unless they are specifically targeted. Low income homeowners don't have the money to put upfront for a retrofit even if subsidized. The answer here can be to allow the homeowner to pay the same amount for hydro and pay off the cost of the retrofit through savings. Once the cost of the retrofit has been paid off, the homeowner realizes the savings.

For the vast majority of low income people who are tenants, however, the problem is the so-called split incentive. Since the landlord can pass the cost of hydro on to tenants, there is often little incentive for energy efficiency unless it is subsidized.

The tenant, meanwhile, has no control over the building envelope and little over appliances (which are usually supplied by the landlord). Even the minimal conservation activity of turning out lights and making do with lower temperatures in winter will not generally allow the tenant to benefit from savings.

Currently, the Tenant Protection Act allows the landlord to pass the capital costs of energy efficiency retrofits along to tenants, but does not allow the tenants to get the rent reductions that result from cuts in energy costs.

The bottom line is that any rent control provision that allows the tenant to benefit financially from lower energy costs through rent reductions reduces the landlord's incentive to implement the efficiency measures in the first place.

Generously subsidized energy efficiency programs aimed at private sector landlords may be the way to go. As noted above, these have broader societal benefits in terms of energy supply and environmental quality.

To benefit low income tenants' bottom line, however, the Tenant Protection Act would have to be amended to both exempt them from paying for the capital cost of the retrofit and allow them to get a rent reduction when the landlords' energy costs decline. This is the reverse of the present situation and would require very generous subsidies to landlords to induce the latter to participate in the energy efficiency program.

Funding Government programs or charities like Share the Warmth to help low income people facing imminent shut-off of their electricity service or eviction

While Share the Warmth says it does not currently receive public funding, it may need such funding if it is to meet increased demand that will come with an electricity rate increase.

The Government's proposed rent bank should also be implemented to supplement the City's effort, though, like the emergency assistance available through Ontario Works, it seems designed to deal with one time emergencies rather than hydro rates which go up and stay up.

Despite this problem, bolstering any and all of these programs would be a move in the right direction. They should also make single people eligible for assistance. As it stands now, they are left out.

The Peterborough Social Planning Council has done a detailed analysis of options in this area and this analysis should be considered by the Government.[10]

Restoring the no hydro cut-offs policy in effect last winter

Last winter as part of the previous government's rate freeze, it passed legislation preventing utilities from cutting off customers for arrears between the beginning of winter and March 31, 2003. They did this because the rebates that were part of the same bill could not be fully implemented for some time.

Local utilities complained that the policy allowed some customers, many of whom were not low income, to defer paying their bills; causing a cash crunch for the utilities who were already suffering from cash flow problems caused by other aspects of deregulation. It also led to some customers piling up debts that led to power shut-offs in April.

Having said that, it is unclear how many people were saved from losing their power by the previous government's policy--it may have been a considerable number. If the Government can address the financial problems being felt by local utilities in other ways, this may still be a viable policy.

Funding a low income energy tax credit

This is probably the best way to get money into the hands of low income people. A tax credit should be refundable with one member of each low income household eligible, as is the case with the Ontario Property Tax Credit.

The appropriate amount would depend on how much the government intends to increase hydro rates. A $100 credit for each low income household below the Statistics Canada LICO would cost about $50 million. A $200 credit would cost about $100 million. For a city such as Toronto, such a program would benefit single people with incomes below $19,261, families of two with incomes below $24,077, families of three below $29,944 and families of four below $36,247.[11]

While $60-120 million may seem like a lot, the Government is eliminating a hydro rate subsidy that cost $730 million in the most recent fiscal year. Spending a very small proportion of that to ensure that low income people do not suffer seems like a small price to pay.

The money should be paid upfront and implemented before any rate increase goes into effect. That means, in effect, paying people as if they incurred the cost last year. This is to ensure that they get the money before they incur the cost.

The best way of implementing such a credit is obviously through the tax system. If it is too late to change the forms for this year, the Ministry of Finance may have to issue cheques separately.

A subsidy that customers have to apply for is the least desireable because many people will not apply and lose the benefit. Indeed, there is a danger that the people most in need

will find it hardest to get the information about how to get a cheque. This option is also the most burdensome from an administrative point of view.

It would also be unwise to have utilities administer this program as they do not have income information. Despite the best of intentions on the part of utilities, privacy concerns could arise if they were given this information.

Offer special assistance to customers with electric heat

Low income people are significantly more likely to have electric heat than other people.[12] These people will have the most serious problem if rates rise. According to Toronto Hydro, bills of $500 for two months during the winter are not uncommon. This is $100 to $200 more than with natural gas.[13]

The Ontario Energy Board could direct gas utilities to pay for the conversion of electric heaters to gas with a focus on low income households. In exchange for the upfront cost, the gas companies will gain more customers. As with other energy efficiency measures, however, this will take time.

In the meantime, a method must be found to allow people with electric heat to get a larger rebate than other customers. Perhaps utilities could be asked to certify that certain customers have electric heat and provide this information to the Ministry of Finance. The appropriate mechanisms need more work than we were able to do within the short time frame available.

Recommendations

The Government of Ontario should:

1. Ensure that low income people are compensated 100% for any increase in their electricity bills. Electricity is an essential service. Because of the changing structure of the economy and cuts and regulatory changes by the previous government, low income people have already lost enough ground in recent years. Even a modest increase in hydro rates could cause evictions and loss of heat and light for some.

2. Implement a refundable energy tax credit that will match as closely as possible an increase in the bill paid by consumers. This should be paid automatically by the Ministry of Finance to low income tax filers. If the benefit is delivered in ways that require a specific application, something we would advise against, the government must heavily publicize its availability to the low income community.

3. Ensure that the refundable energy tax credit program gives increased benefits to customers with electric heat, reflecting their much higher costs.

4. Implement an aggressive energy conservation program targeted especially at low income consumers. Such a strategy must take into account the "split incentive" problem that is a barrier for the majority of low income people who live in private sector rental buildings.

5. Strengthen emergency measures to ensure money is available to directly help people facing an immediate eviction or power shut-off. This includes emergency assistance under the city's Shelter Fund and rent bank program as well as organizations like Share the Warmth.

6. Consider whether to re-impose the "no shut-off" law implemented by the previous government last winter.

7. Only implement a progressive rate structure if people with electric heat can be guaranteed the right to opt out provided they convert to gas within a reasonable period of time. This is dependent on a program like that described above.

8. Consider whether the need for a significant hydro rate increase could be reduced by closing the spot market and replacing it with a system base don power-at-cost.

Conclusion

The recommendations listed above are intended to address what is merely one aspect of a much larger issue. The reality is that many, many individuals and families in Toronto, and across Ontario, are living in such poverty that having their electricity cut off is already an issue for thousands of people. To seriously address this issue will require dramatic changes to our entire social assistance system - the commitments made by the new government during the election campaign are positive steps in this direction, but a great deal more will need to be done. It is an indictment of our current system that too many people in our city and province are in such a precarious economic position that the prospect of an increased hydro bill could be disastrous. Nobody in our province should be only a hydro bill away from crisis.

It is our hope that the recommendations in this presentation will be of assistance in ameliorating the negative impacts of the proposed rate cap removal, but we recognize that much more needs to be done to effect positive change for low income people in our city.

Notes

City of Toronto, "The Toronto Report Card on Housing and Homelessness 2003", p 4, 12 ,13, 28

(2)Toronto Hydro website www.torontohydro.com/electricsystem/biling_and_payment/understanding_your_bill/bill_breakdown/index.cfm

(3) Electricity Distributors Association news release "Liberals' Move to Ensure Electricity Prices Reflect True Costs seen as Potentially Positive", Oct. 31, 2003

(4)Statistics Canada "Survey of Household Spending 2001: Detailed Average Household Expenditure by Household Income Quintile Detailed Table 2, 62F0032XDB"

(5)City of Toronto website www.toronto.ca/socialservices/Policy/Shelterfund.htm

(6) Herd, Dean and Andrew Mitchell "Discouraged, Diverted and Disentitled: Ontario Works New Service Delivery Model", Community Social Planning Council of Toronto, 2002, p33

(7) Share the Warmth website www.sharethewarmth.org/public/index/html

(8) Etcheverry, Jose and Keith Stewart "Avoiding Blackouts in Ontario", David Suzuki Foundation, September 2003, p21

(9)GreenSaver website www.greensaver.org/services.home.asp

(10) "Energy Assistance for Low Income Households in Peterborough City and County", Peterborough Social Planning Council for the Policy and Issues Sub-Committee, Affordable Housing Action Committee (AHAC), December 2002

(11)Canadian Council on Social Development website www.ccsd.ca/factsheets/fs_lic02.htm

(12) Statistics Canada op cit

(13) Telephone conversation with Karen Zeppa, Toronto Hydro Public Affairs, November 18, 2003